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2004 Harvard MBA Indicator Stays in 'Neutral'

by Ray Soifer

For many years I have been keeping track of a rather esoteric but nonetheless generally accurate long-term indicator of the US equity market: the percentage of Harvard MBA graduates choosing careers in market-sensitive fields. If 10% or less of the year's class take market-sensitive jobs (identified, using the Business School's current terminology, as investment banking, investment management, sales & trading, venture capital, private equity or leveraged buy-outs), that's a long-term buy signal. Conversely, if 30% or more do so, that's a long-term sell signal.

Data released today by HBS show that 26% of the MBA Class of 2004 chose market-sensitive careers, up slightly from 23% a year earlier. Both figures are down significantly from 36% in 2002 and 32% in 2001. The indicator remains in 'Neutral' territory. A long-term 'Sell' signal was sent in 2000, with 30%. Comparable figures were 28% in 1999 and 29% in 1998. Prior to 2000, the last such 'Sell' signal was given in 1987.

Financial services as a whole attracted 31% of the 2004 graduates, up from 28% in 2003, while consulting drew 26%, down from 30%. Other services accounted for 16% and manufacturing 27%, versus 17% and 25% respectively.

Historically, the Harvard MBA indicator has been more prolific as a source of 'Sell' signals than 'Buy' signals. The last time it reached the 10% 'Buy' level was in the early 1980s, when the Dow traded below 1,000. In the late 1980s and early 1990s, it hovered generally in the mid-teens. As far as I am aware, the all-time low was reached in 1937, when only three graduates -- about 1% -- were adventurous enough to venture into the securities industry. If you had bought stocks in 1937, you'd have done pretty well since.

As a practical market-timing tool, the Harvard MBA indicator has some obvious drawbacks. It only comes out once a year, with a long reporting lag: most graduates make their decisions in the spring but the figures are not released until the following autumn. Yet, for long-term investors who can think in terms of decades rather than months or quarters, it's worth keeping an eye on. Besides, it's fun.

(For the record, I remained in graduate school at Harvard after receiving my own MBA, so would not have figured in the statistics had I kept them at the time.)

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